

**WHITE PAPER NO. 17 – FINANCIAL ASSESSMENT
OF THE FOX RIVER GROUP**

Response to

**COMMENTS BY THE FOX RIVER GROUP FOR THE
FOX RIVER NRDA SITE, No. A565**

This Document has been Prepared by
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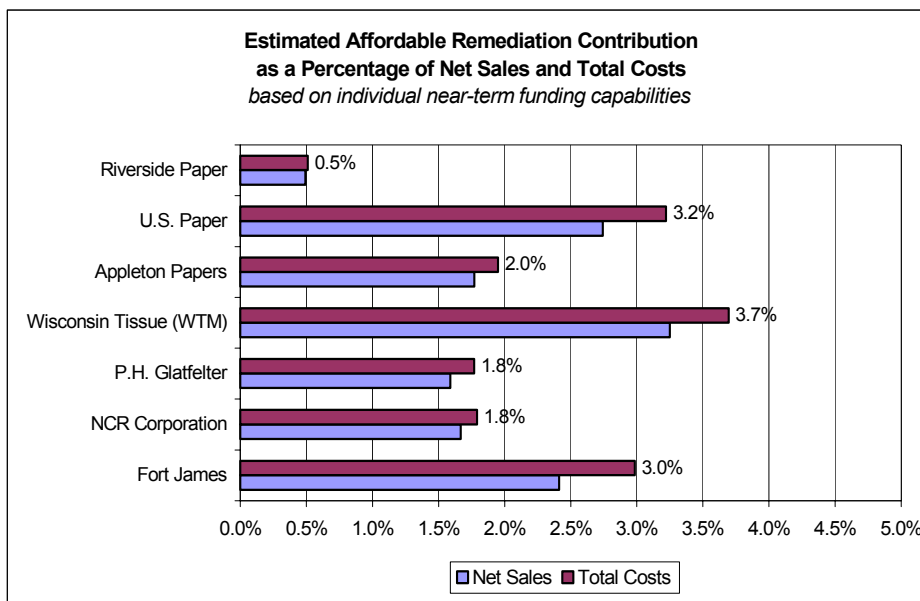
ABSTRACT

As required under the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA), the Agencies are required to evaluate the financial impact of the Record of Decision. This White Paper provides a financial assessment of the Fox River Group (FRG) by presenting:

- The remedial activity contribution burden for each company within the FRG;
- The estimated remediation contribution as a percentage of net sales;
- How the financial contributions will contribute to operating costs;
- An industrial analysis of changes in the paper and paperboard commodities;
- The financial resources currently available to the FRG; and
- The consolidation and merger activity within the FRG.

Based upon these analyses the following was concluded; that the cost of remediation will result in limited financial burden to the companies of the Fox River Group; that the paper and paperboard future is bright; that except for Riverside Paper, the Fox River Group are in sound financial health; and finally that consolidation should provide relief to the remaining paper producers on the Lower Fox River.

ASSESSMENT



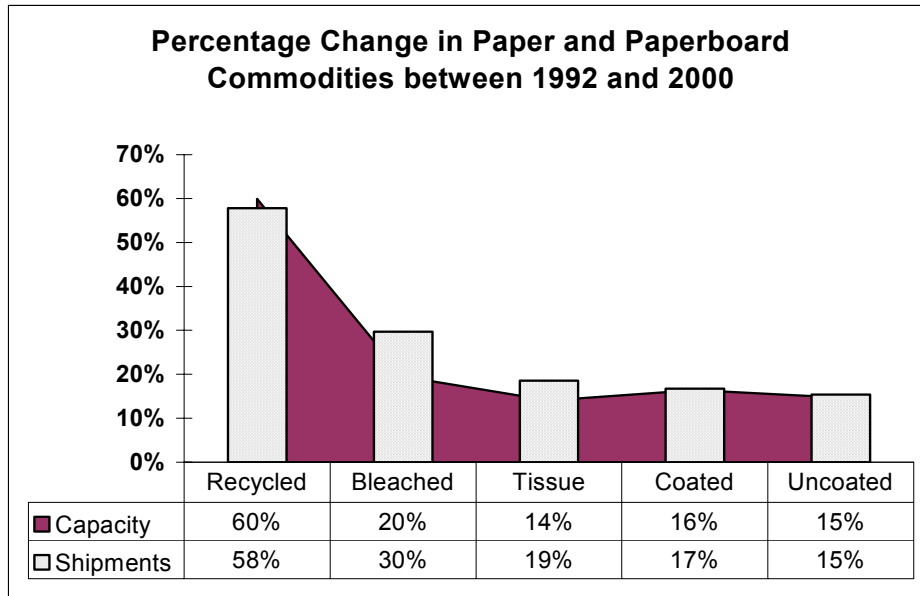
- The members of the Fox River Group range from large, multi-national corporations to relatively small, privately held businesses. The table above illustrates the contribution burden for each company based on a remediation cost

estimate of \$307 million. The underlying contribution amount, or “near-term funding capability,” was developed based on an extensive financial and economic analysis of each company and the broader paper products industry. The near-term funding capability represents the amount of funds each company could apply toward remediation in the next 2 to 3 years.

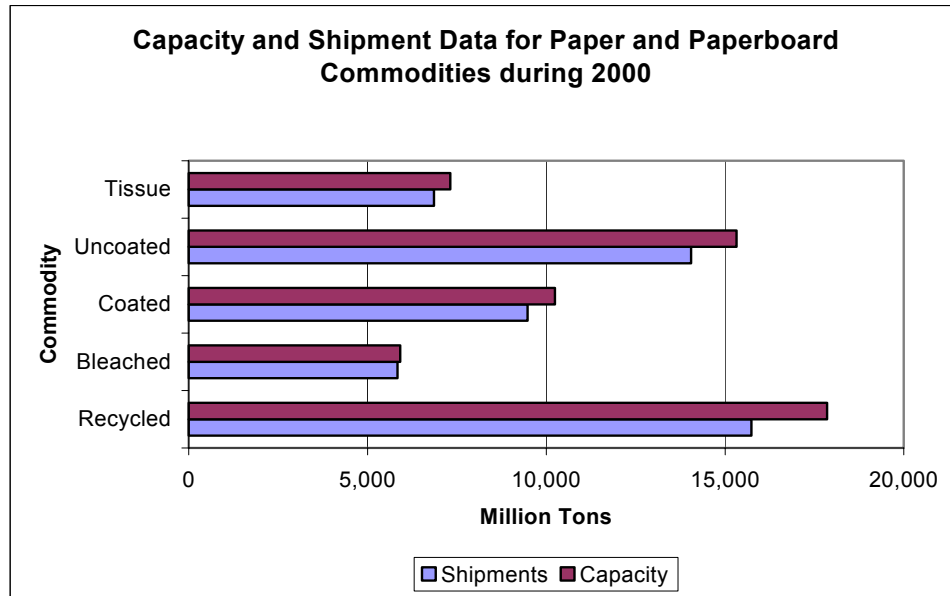
- The estimated remediation contribution as a percentage of net sales and total costs is relatively consistent across the seven companies. The exceptions are U.S. Paper Mills, Wisconsin Tissue, and Fort James. The estimated contribution for these companies is slightly higher on a relative basis (averaging 3.3 percent of total costs), due to their superior financial performance in recent fiscal periods. We note that over the past 18 months, all three companies were purchased by large, multinational corporations with total annual 2001 sales revenue of approximately \$31 billion. In our opinion, the acquisitions should bolster the financial health of Fort James, U.S. Paper Mills, and Wisconsin Tissue.
- Conversely, Riverside Paper’s declining performance in recent fiscal periods and overall financial condition contributes to a relatively low contribution as a percentage of net sales revenue and total costs (0.5 percent).
- In terms of potential impacts, it is likely that contributing to the cleanup of the Lower Fox River Site will result in higher operating expenses for the seven companies. However, the degree to which producers are able to pass these added costs through to customers in the form of increased product prices will dictate whether (and by how much) corporate profits suffer.
- Our analysis indicates that the cost of remediation (adjusted for each member’s near-term funding capability) will result in limited financial burden for the Fox River Group. The companies are large enough and healthy enough to manage payments of this magnitude, particularly if the resources of their corporate parents are considered. We also note that we consider funding capabilities over the near-term, while the Lower Fox River remediation will occur over a longer time period.

INDUSTRY ANALYSIS

- The domestic paper and allied products industry is characterized by considerable competition. Through 2001, companies continued to use mergers and acquisitions as a means of increasing market share and reducing production costs. For example, in many cases, it is cheaper to purchase existing capacity than to build new capacity.



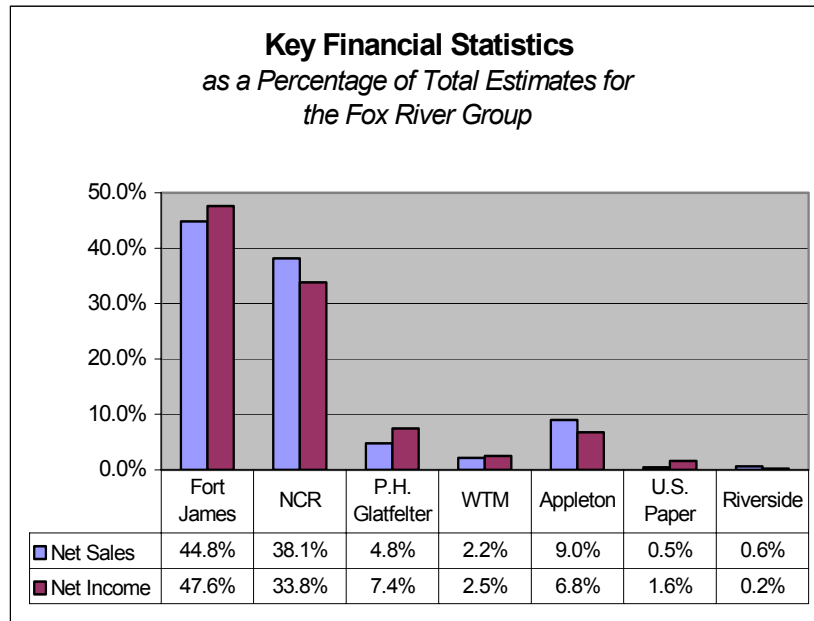
- The trend toward consolidation likely will continue in the near term as large, financially secure corporations seek to buy (and retire) excess capacity. The respective acquisitions of Fort James and U.S. Paper Mills by Georgia-Pacific and Sonoco Products represent two such recent examples.
- By our calculations, recycled and bleached paperboard represent the largest increases in capacity and related shipments between 1992 and 2000. This sector of the paper and allied products industry (with end uses including folding box board, writing tablets, and folding cartons) continues its transformation from a regional to a global commodity.
- Continued development of new consumer products that require folding cartons will contribute to continued strong demand for recycled and bleach paperboard in the near term.



- North American producers sought to restrain capacity and match output to demand using a just-in-time approach in 2000. Although producers were better able to clear excess inventory, excess capacity remains in the uncoated paper and recycled paperboard sectors.

THE FINANCIAL RESOURCES OF THE FOX RIVER GROUP

- The members of the Fox River Group experienced varied financial performance in recent fiscal periods. Much of this fluctuation mirrors the cyclical nature of the paper and allied products industry.
- Based on a review of key financial metrics, including the profitability, liquidity, and solvency of each company, we identified the strengths and weaknesses of each company's financial position. Our analysis reveals that U.S. Paper and Fort James receive the highest performance scores; Riverside Paper receives the lowest score.



- In terms of overall performance, Fort James and NCR Corporation represent the strongest members relative to other Fox River Group companies. Respectively, these companies account for 45 percent and 38 percent of net sales generated by the Fox River Group during the most recent fiscal periods for which we have data.
- Analysis indicates that Fox River Group companies continue to benefit from reasonably healthy consumer demand with only moderate increases in raw material costs.
- In fact, many of the larger producers successfully passed increases in raw material costs through to their consumers, contributing to relatively healthy free cash flow during 2000 and 2001.
- With the possible exception of Riverside Papers, the member companies of the Fox River Group appear to be in sound financial health.

CONSOLIDATION AND MERGER ACTIVITY

- Global competition is forcing aggressive streamlining and consolidation within the paper and allied products industry. Consolidation should provide relief to the producers that remain.
- Four members of the Fox River Group – Fort James, Appleton Papers, U.S. Paper, Wisconsin Tissue – experienced significant changes in ownership structure over the past 18 months.

- The degree to which restructuring efforts result in cost savings and revenue growth will bolster the capability of the Fox River Group to fund cost recovery in the near term.
- We recognize that if newly acquired (or existing) mills are unable to perform efficiently, there is an increased possibility that the parents will prune the mills from their asset portfolios.
- Moreover, we are aware of the possibility that large conglomerates (Georgia-Pacific, Sonoco Products, SCA Sweden) may be focused on buying up (and retiring) excess capacity.

Fort James Corporation, recently purchased by Georgia Pacific for an estimated \$11 billion

U.S. Paper Mills, recently purchased by Sonoco Products for an estimated \$70 million.

Wisconsin Tissue, recently purchased by SCA Tissue North America for \$850 million.

Appleton Papers, recently subject to an employee buy out valued at \$810 million